

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02

PA-02 PRS-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00

USIA-15 XMB-04 OPIC-06 LAB-04 SIL-01 /117 W

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R 031702Z OCT 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1471

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

USMISSION OECD PARIS

AMCONSUL ZURICH UNN

UNCLAS SECTION 1 OF 2 BERN 4176

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, ECON, SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF
SEPTEMBER 28 - OCTOBER 3, 1975

1. SUMMARY: BOTH THE DOLLAR AND GOLD UNDERWENT LARGE
PRICE SWINGS THIS WEEK WITH THE DOLLAR ENDING UP LOWER
AND GOLD HIGHER. THE GENERAL MANAGER OF THE SWISS BANK
CORPORATION HAS EXPRESSED OPTIMISM ABOUT THE FUTURE
OF GOLD AND SEES A DAY, PERHAPS FIVE TO TEN YEARS FROM
NOW, WHEN THE U.S. WILL ASK COUNTRIES TO PAY THEIR
BALANCE OF PAYMENTS DEBTS IN GOLD. THE MONEY AND
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CAPITAL MARKETS WERE VERY LIQUID AND THE COMMERCIAL BANKS

PASSED THE END OF THE QUARTER WITH NO PROBLEMS. THE SWISS PETROLEUM UNION BELIEVES THAT THE OCTOBER 1 INCREASE IN OPEC PETROLEUM PRICES IS JUST ONE FACTOR PUSHING UP THE COST OF PETROLEUM PRODUCTS IN SWITZERLAND. PROF. KNES-CHAUREK, THE FEDERAL DELEGARE FOR BUSINESS-CYCLE QUESTIONS, SAID THIS WEEK THAT SWITZERLAND SHOULD EXPECT RELATIVELY SLOWER RATES OF ECONOMIC GROWTH IN THE FUTURE AND THE GOVERNMENT SHOULD BEGIN TO FORMULATE POLICIES TO FACILITATE THE INEVITABLE RESTRUCTURING OF THE ECONOMY.

END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: BOTH THE DOLLAR AND GOLD UNDERWENT LARGE PRICE FLUCTUATIONS THIS WEEK WITH THE SPOT DOLLAR ENDING UP LOWER AND GOLD HIGHER. AFTER REACHING A HIGH FOR THE YEAR OF SF 2.7590 DURING THE DAY ON MONDAY (SEPT. 29, THE DOLLAR CAME UNDER HEAVY SELLING PRESSURE AT MID-WEEK AND FELL TO SF 2.6980 DURING THE DAY ON THURSDAY (OCT. 2) DESPITE INTERVENTION BY THE SWISS NATIONAL BANK (SNB). FOREIGN EXCHANGE TRADERS WERE GENERALLY AT A LOSS TO EXPLAIN THE DOLLAR'S SHARP DROP. DEMAND FOR DOLLARS PICKED UP AGAIN ON FRIDAY (OCT. 3) AND THE DOLLAR RECOVERED ABOUT HALF THE LOSS OF THE FIRST FOUR DAYS. THE TREND IN GOLD PRICES WAS EXACTLY OPPOSITE THE DOLLAR'S MOVEMENTS AS GOLD ROSE TO \$145.25 ON OCT. 2 AND THEN FELL BACK TO CLOSE THE WEEK A BIT HIGHER THAN IT OPENED. RATES AS FOLLOWS:

	9/29 (OPEN)	10/3 (CLOSE)
SPOT DOLLAR	SF 2.7500	SF 2.7200
FORWARD DISCOUNTS		
(PCT. P.A.)		
ONE MONTHS	- 5.0	- 5.2
3 MONTHS	- 4.2	- 4.4
6 MONTHS	4.4	- 4.5
SF/DM	SF 102.93	SF 103.42
GOLD	\$137.00	\$138.50

3. A SWISS LOOKS AT GOLD: IN THE LATEST EDITION OF "INFORMAL COMMENTS" OF THE UNION BANK OF SWITZERLAND UNCLASSIFIED

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(ONE OF THE THREE MAJOR BANKS IN THE SWISS GOLD POOL), UBS GENERAL MANAGER NIKOLAUS SENN CHARACTERIZED THE IMF GOLD DECISION AS A POLITICALLY MOTIVATED "IMPROVISATION." HE SAID THE DECISION SHOWS THE INFLUENCE OF THE "INTERNATIONAL ANTI-GOLD LOBBY" WHICH HAS AN "ABNORMAL AVERSION" TO GOLD BECAUSE IT "IS A REMINDER OF MONETARY DISCIPLINE AND CREATES LIMITS TO ECONOMIC INTERVENTION BY THE AUTHORITIES." THE REAL MOTIVE,

ACCORDING TO DR. SENN, IS TO GIVE THE INDUSTRIALIZED COUNTRIES ANY EASY WAY TO PROVIDE DEVELOPMENT AID TO THE LDC'S. THE FREE MARKET, HOWEVER, IS TOO THIN TO ALLOW SIZABLE IMF SALES WITHOUT DRIVING PRICES DOWN WHICH NEITHER THE MAJOR CENTRAL BANKS NOR THE LDCS WANT TO SEE HAPPEN. AS A CONSEQUENCE, DR. SENN BELIEVES ANY IMF GOLD SALES WILL BE MADE TO THE MAJOR CENTRAL BANKS AT "MARKET-RELATED" PRICES. HE IS OPTIMISTIC ABOUT THE FUTURE OF GOLD, SO LONG AS "WORLDWIDE ECONOMIC, SOCIAL AND POLITICAL UNCERTAINTY PERSISTS," BUT FORECASTS "HEIGHTENED INSTABILITY" FOR THE GOLD MARKET OVER THE NEAR AND MEDIUM TERM. IN A PARTICULARLY INTERESTING COMMENT, DR. SENN SPECULATED "THAT DURING THE NEXT FIVE TO TEN YEARS A MASSIVE OUTFLOW OF CAPITAL FROM EUROPE TO THE UNITED STATES MIGHT OCCUR." THIS COULD LEAD TO A RETURN TO FIXED EXCHANGE RATES, A SHORTAGE OF DOLLARS OUTSIDE THE U.S., AND THE NEED FOR SOME NATIONS TO PAY THEIR BALANCE OF PAYMENTS DEBTS TO THE UNITED STATES IN GOLD. HE ADVISES THE EUROPEAN NATIONS TO BUILD UP THEIR GOLD STOCKS FOR SUCH EVENTUALITIES.

4. MONEY AND CAPITAL MARKETS: THE COMMERCIAL BANKS PASSED THE END OF THE THIRD QUARTER WITH NO LIQUIDITY PROBLEMS. THE BANKS USED ONLY ABOUT HALF THE SF 1.5 BILLION IN DOLLAR SWAPS OFFERED BY THE SNB AND 4.5 PERCENT WAS THE HIGHEST RATE QUOTED FOR END-OF-MONTH MONEY. ON OCT. 3, CALL MONEY WAS BACK TO 0.5 PERCENT. STOCK PRICES CONTINUED TO DRIFT DOWNWARD AND THE SKA INDEX SLIPPED FROM 175.4 (END 1959 EQUALS 100) ON SEPTEMBER 26 TO 173.2 ON OCTOBER 2. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS FELL A BIT FROM 6.21 PERCENT ON SEPTEMBER 26 TO 6.17 PERCENT ON OCTOBER 3.

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USIA-15 XMB-04 OPIC-06 LAB-04 SIL-01 /117 W

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R 031702Z OCT 75
FM AMEMBASSY BERN
TO SECSTATE WASHDC 1472
INFO AMEMBASSY BONN
AMEMBASSY LONDON
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UNCLAS FINAL SECTION OF 2 BERN 4176

DEPARTMENT PASS TREASURY AND FRB

5. PETROLEUM PRICES FOLLOWING THE OPEC DECISION:
ACCORDING TO A SPOKESMAN FOR THE SWISS PETROLEUM UNION,
THE OPEC DECISION TO INCREASE PETROLEUM EXPORT PRICES
BY 10 PERCENT ON OCT. 1 WILL NOT HAVE AN IMMEDIATE
EFFECT ON PRICES IN SWITZERLAND. IT WILL TAKE SEVERAL
WEEKS FOR THE HIGHER-COST OF CRUDE TO WORK ITS WAY
THROUGH THE DISTRIBUTION AND REFINING SYSTEM TO PRODUCE
A PRICE INCREASE AT THE RETAIL LEVEL. THE UNION ESTIMATES
THAT THE NET EFFECT OF THE OPEN INCREASE WILL RAISE GASOLINE
PRICES BY SF 0.02 PER LITER (ABOUT 2.8 US CENTS PER
GALLON) AND HEATING OIL PRICES WILL GO UP SF 1.50 PER
100 KILOS (ABOUT 2.0 US CENTS PER GALLON). THE UNION
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POINTED OUT, HOWEVER, THAT THE OPEC PRICES INCREASE IS
JUST ONE ELEMENT IN THE ESCALATING COST OF PETROLEUM
PRODUCTS IN SWITZERLAND. THE OCT. 1 INCREASE IN WHOLESALE AND
RETAIL TURNOVER TAXES WILL ADD SF 0.01 PER LITER TO THE
RETAIL PRICE OF GASOLINE. THE UNION'S SPOKESMAN INDICATED
THAT THE RECENT STRENGTHENING OF THE DOLLAR AGAINST THE SF
(UP 13 PERCENT FROM THE LOW POINT AT THE END OF FEBRUARY)
COULD ALSO ADD TO HIGHER PRICES IN SWITZERLAND.

6. LONG-RANGE ECONOMIC FORECAST: IN A SEMINAR SPONSORED
BY THE SWISS BANK CORPORATION, PROF. FRANCESCO KNESCHAUREK,
THE FEDERAL DELEGATE FOR BUSINESS-CYCLE QUESTIONS AND
AUTHOR OF A REPORT ON THE SWISS ECONOMY IN THE YEAR 2000, SAID
THAT SWITZERLAND MUST ADJUST TO A SLOWER RATE OF ECONOMIC
GROWTH. THE STAGNATION OF THE SWISS LABOR FORCE WILL NOT ALLOW
THE HIGH GROWTH RATE EXPERIENCED FROM 1950 TO 1970.
THIS NEW PHASE OF SWITZERLAND'S LONG-TERM DEVELOPMENT WILL

REQUIRE MANY PAINFUL STRUCTURAL CHANGES AND THE FEDERAL GOVERNMENT SHOULD NOW BEGIN TO FORMULATE POLICIES TO FACILITATE THIS RESTRUCTURING. AS ONE EXAMPLE, PROF. KNESCHAUREK SAID THAT THE SWISS EDUCATIONAL SYSTEM SHOULD BE CHANGED WITH A MUCH GREATER PERCENTAGE OF RESOURCES DEVOTED TO ADULT EDUCATION AND RETRAINING.

7. SNB STATEMENT OF ACCOUNT FOR SEPTEMBER: THE MAJOR CHANGES SHOWN BELOW LARGELY REFLECT THE SNB'S END-OF-QUARTER ASSISTANCE TO THE COMMERCIAL BANKS WHICH TOTALED SF 726 MILLION IN SHORT-TERM DOLLAR SWAPS AND SF 2.1 BILLION IN DISCOUNTS AND LOMBARD CREDITS. THE LIQUID CONDITION OF THE BANKING SYSTEM IS INDICATED BY THE FACT THAT ONLY ABOUT HALF OF THE SF 1.5 BILLION IN SWAPS OFFERED BY THE SNB WERE UTILIZED. FOREIGN EXCHANGE HOLDINGS ROSE ONLY SLIGHTLY BECAUSE OF OFFSETTING FOREIGN EXCHANGE SALES RESULTING FROM THE REQUIRED CONVERSION OF CAPITAL EXPORTS. ONE SIGNIFICANT CHANGE NOT RELATED TO THE END-OF-QUARTER OPERATIONS WAS THE DROP IN PENALTY DEPOSITS. THESE DEPOSITS WERE REQUIRED OF THOSE BANKS WHICH EXCEEDED THE CEILINGS ON CREDIT EXPANSION. WITH THE REMOVAL OF SUCH CEILINGS ON MAY 1, THE PENALTY DEPOSITS HAVE BEEN GRADUALLY DRAWN.

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	SEPT. 30	CHANGE FROM AUG.	
	29		
(MILLIONS OF SWISS FRANCS)			
ASSETS			
GOLD	11,892.7	---	
F/X	10,106.0	UP	86.7
ROSSA BONDS	5,403.0	---	
DISCOUNTED PAPER	1,563.4	UP	789.4
LOMBARD LOANS	467.0	UP	451.9
OTHER	1,157.4	UP	254.5
LIABILITIES			
NOTES IN CIRCULATION	17,683.5	UP	61.1
GIRO ACCOUNTS	8,307.0	UP	2,048.3
RESERVES (FOREIGN	184.2	DOWN	10.6
LIABILITIES)			
PENALTY DEPOSITS	17.7	DOWN	488.2
OTHER	4,397.1	DOWN	28.1
BALANCE SHEET TOTALS	30,589.5	UP	1,582.5
ODELL			

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